HOUSING MARKET INFORMATION

HOUSING MARKET OUTLOOK
Québec CMA

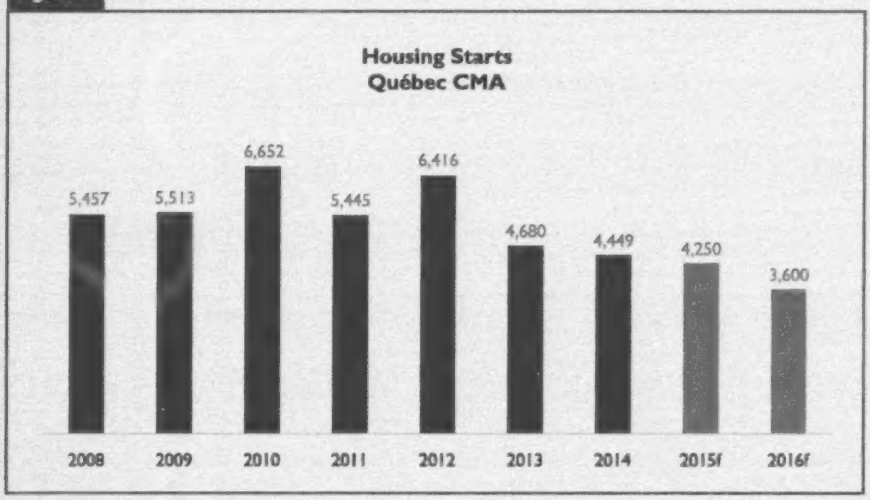
CANADA MORTGAGE AND HOUSING CORPORATION

Date Released: Spring 2015

Highlights

- From now until 2016, the housing market will evolve in a context of moderate employment and population growth combined with low interest rates.
- Decreases are expected in residential construction, with this sector contending with inventories of unsold new units and a larger supply of existing homes.
- The resale market will manage to do well, as Centris® sales will post increases of about 4 per cent in both 2015 and 2016.
- The rental market will ease: the vacancy rate will climb from 3.1 per cent in 2014 to 3.5 per cent in 2015 and then to 3.8 per cent in 2016.

Figure 1



Source: CMHC f: CMHC forecasts

The outlook is subject to uncertainty. Although point forecasts are presented in this publication, CMHC also presents risks where appropriate. The forecasts and historical data included in this document reflect information available as of April 20, 2015.

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New home market: starts will decrease

Housing starts will decrease in the Québec metropolitan area. The wider choice of properties for sale on the existing home market, the still significant inventory of new condominiums and moderate population growth will lead to a drop in activity on the new home market from now until 2016.

Housing starts will decrease by 4 per cent this year, bringing total new dwellings to 4,250 units. In 2016, the decline will be more significant, at 15 per cent, with starts falling below the 4,000-unit mark to 3,600 units. This decrease will result mainly from a slower pace of rental housing construction, as the market adjusts to the greater proportion of vacant units[1] expected this year.

Single-detached houses

Single-detached housing starts will decrease by 4 per cent in 2015 and by 6 per cent in 2016, to 800 units. Demand for houses of this type is facing several limitations, including generally higher prices than for existing homes and the stabilization of the first-time buyer pool.[2] In addition to factors related to demand, the availability and high prices of lots will continue to limit the production of single-detached homes.

Multi-unit housing

There will also be fewer multi-unit housing starts in 2015 than in 2014. Even though a significant level of activity is expected in the rental housing segment, total multi-unit housing starts will decrease by 5 per cent this year. In 2016, the decline will be more significant, at 18 per cent.

Construction of semi-detached and row homes will continue at a pace similar to the rate observed in 2014, around 700 units per year, until 2016. The affordability of semi-detached and row homes and the relatively lower inventory of these dwellings, compared to single-detached houses, will keep up demand for such homes.

In 2015, condominium starts will reach 700 units, a decline of 40 per cent over 2014. In 2016, starts will remain at the same level, as the gradual absorption of inventories will continue prior to the launch of any new projects. In fact, the condominium market continues to post relatively high inventories of units under construction and completed and unabsorbed units. Despite the fact that inventories began to decrease in the spring of 2013, they remain significant. And, the inventory of existing condominium units also remains high. Market conditions will therefore continue to favour buyers, which will limit housing starts from now until 2016.

Currently, builders and developers are showing interest in the rental market, given the slowdown in demand for new condominium units. In 2015, the number of rental housing starts will increase by 16 per cent. However, in 2016, starts of units of this type are expected to decrease by 32 per cent, as a result of the anticipated increase in the vacancy rate.[3] Nevertheless, the construction of rental units targeted to seniors (retirement homes with services) will be active because of the upcoming increase in the population aged 75 and older. Overall, in 2015, foundations will be laid for 1,900 rental units,[4] and this number will drop to 1,300 units in 2016.

In 2015, multi-unit housing starts will reach 3,400 units, compared to 3,560 in 2014. In 2016, the total will fall to around 2,800 units.

Existing home market: sales will be on the rise

Centris® sales will continue to climb at a moderate pace until 2016. With the slight expansion of the job market, the low interest rates and the wider choice of homes for sale, transactions will rise by 4 per cent in both 2015 and 2016. It should also be taken into consideration that the resale market naturally expands, as the housing stock grows over the years. In all, Centris® sales will reach 6,700 units in 2015 and 6,950 units in 2016. While the expected pace of activity in 2016 will be above the average for the last five years, it will not surpass the high observed in 2007, when some 8,000 transactions were registered.

The number of properties for sale (active listings) will rise slightly this year, as a result of the increase in new listings and the moderate pace of sales. In 2015, there will be, on average, 6,600 active listings in the Québec CMA; in 2016, this number

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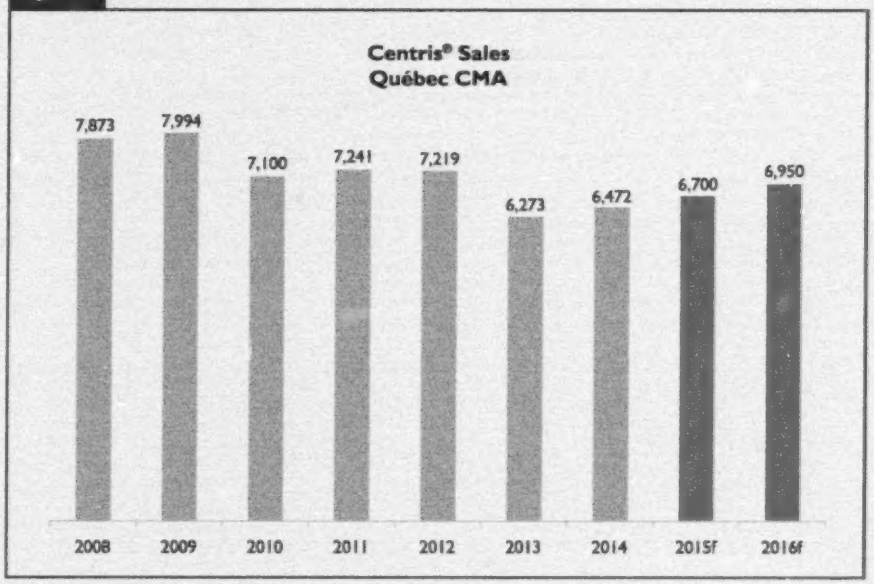
[1] Conventional rental market.
[2] Households where the primary maintainer is aged from 25 to 34. Institut de la statistique du Québec (ISQ), population projections for 2011 to 2036.
[3] Conventional rental housing vacancy rate.
[4] Total conventional and seniors' (retirement home) rental housing units.

will be slightly lower, at 6,500 units. Therefore, market conditions, or the relationship between sellers and buyers, will tighten somewhat.

In spite of the market tightening slightly overall, market conditions will differ depending on the housing type: conditions will be balanced in the single-family home segment, while the condominium market situation will clearly benefit buyers. In fact, it would not be surprising to see a decrease in the average price of units of this type, given the very soft market conditions. The plex market, for its part, will also be favourable to buyers.

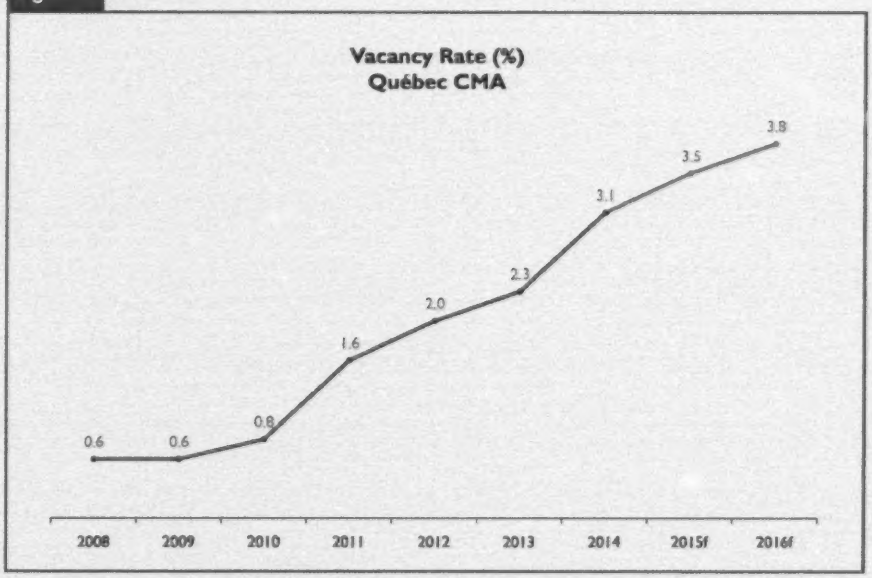
Overall, the growth in the average price of homes will be weak: 0.5 per cent in 2015 and 1.5 per cent in 2016. Therefore, after several years of price growth above the inflation rate, the actual average price will be relatively stable from now until 2016 in the Québec area.

Figure 2



Source: QFREB by the Centris® system f: CMHC forecasts

Figure 3



Source: CMHC f: CMHC forecast

Rental market: vacancy rate will increase

The addition of a relatively significant number of new units to the supply and a rental housing demand that will increase at a slower pace than before will cause the market to ease in 2015 and 2016.

Several rental housing projects were recently started in the Québec area. Renewed interest in this market segment has been observed, as a result of the still significant inventory of condominiums. While starts of conventional rental units will remain at high levels, demand will slow down. The Québec area will continue to register relatively high net migration numbers. This net increase in the number of newcomers will reach about 5,000 people annually in 2015 and 2016. This arrival of newcomers will keep rental housing demand at a level similar to that recorded in 2014.

Still, with a greater number of housing starts again this year, the arrival of new units[5] will have an impact on the vacancy rate, which will climb to

[5] Conventional rental unit completions.

3.5 per cent in October, compared to 3.1 per cent a year earlier. Starts are expected to decrease in 2016, but the vacancy rate should climb to 3.8 per cent, with the completion of several projects started in 2015.

The market will be softer, but the addition of new units will increase the share of newer units in the rental housing stock. This will contribute to the rise in average rent, despite a higher vacancy rate. The average rent for two-bedroom apartments will therefore climb from $775 in 2014 to $790 in 2015 and then to $805 in 2016.

Economy and demographics: a moderate expansion is expected

Economy: slight increases in employment are anticipated

In the Québec CMA, employment growth will rest on public and private investments and on the recovery of the North American economy.

While investments in residential construction will decline, several public and private capital projects will continue or get under way from now until the end of 2016, such as the completion of the amphitheatre, the rebuilding of the armoury, the modernization of the airport, and the construction and repair of a number of road, institutional and commercial infrastructures. This will benefit employment in the construction sector.

In addition, exporters should benefit from favourable conditions, including the economic growth south of the border and the weak Canadian dollar. This environment will also be beneficial to the tourism sector.

The number of employed people in the health sector will remain high, given the aging of the population. Still, the context of budget restrictions will be felt in the public administration sector.

All in all, the job market is headed toward moderate gains of about 1 per cent in 2015 and 1.5 per cent in 2016.

Despite the aging of the population and a decreasing participation rate in the 45 to 64 age group, labour needs seem to resonate in the 25 to 44 age group. The labour force is expected to increase at a pace similar to the rate of employment growth. The unemployment rate should therefore reach about 5.5 per cent in 2015 and 2016.

Demographics: net migration will remain stable, and the aging of the population will drive housing demand

Given the strength of its job market, the Québec area will maintain its appeal. The area is expected to attract and retain many workers. Net migration should therefore remain at about 5,000 people annually in 2015 and 2016. This will continue to have a positive effect on the rental housing demand in the short term and on the overall housing demand in the long term.

Also, the increase in the number of households aged 65 and over will continue to have an influence on the need, and therefore the demand, for housing over the next few years. The demand for condominium and rental apartment units from households aged 65 to 74 should stay at the same level in the medium term. The market will have to adjust to the characteristics of the demand from households aged 75 and older, a population segment that will post steadier growth as of 2016 (see the Spotlight on page 6).

Mortgage rates are expected to remain at or close to current levels over the forecast horizon

Mortgage rates will continue to be supportive of housing demand. Consistent with the view of Canadian economic forecasters, CMHC expects interest rates to remain at or very close to current levels over the forecast horizon.

According to CMHC's base case scenario for 2015, the one-year mortgage rate is expected to be in the 2.30 to 3.50 per cent range, while the five-year rate is forecast to be within the 4.00 to 5.50 per cent range. For 2016, the one-year mortgage rate is expected to be in the 2.40 to 4.00 per cent range, while the five-year rate is forecast to be within the 4.20 to 6.20 per cent range.

Trends at a glance

Key Factors and their Effects on Housing Starts	
Mortgage Rates	Mortgage rates will remain low by historical standards and supportive of housing demand.
Employment	The small employment gains will modestly support demand for new homes.
Income	In recent quarters, average weekly earnings increased at a lower rate than inflation in the Québec CMA, which will contribute to slowing the demand.
Population	The demographic outlook is pointing to slower growth until 2016. It is therefore expected that demand for new homes will moderate.
Resale Market	The supply of existing properties will grow, which will limit activity on the new home market.
Supply	The relatively high inventory of condominiums for sale will limit construction again this year, but activity is then expected to stabilize.

Forecast risks

This outlook is subject to some risks, including the following:

- Employment could grow less significantly or even decline, as a result of weaker North American economic growth than expected and a greater-than-anticipated impact from the budget cuts. Such a situation would further limit housing demand over the next two years.
- Given the moderate pace of job creation, migration could be lower than anticipated. This would weaken demand in the rental segment and cause this market to ease further.
- More numerous conventional rental housing starts than expected would cause market conditions to soften further.
- With the population growth picking up among people aged 75 and older over the coming years, seniors' rental housing construction could be stronger than anticipated.

Spotlight on...

Seniors' housing market

At the provincial level, it was estimated that close to 19 per cent of seniors aged 75 and over lived in a retirement home[6] in 2014. In the Québec area, this percentage was just over 22 per cent. It was also estimated that the supply of standard spaces[7] reached 12,836 units, in a stock of 147 retirement homes.

This is therefore a significant market that meets the needs of a segment of the seniors' population willing and able to pay for services such as meals and, sometimes, care provided on site by a nurse. This market comprises properties that are not just housing projects but buildings offering a range of services adapted to aging clients, most often independent and semi-independent seniors.[8]

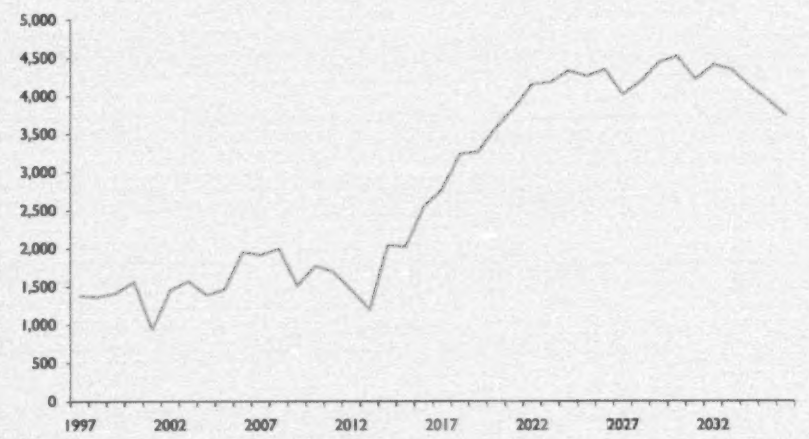
Apartments are popular

Spaces in apartments represent the bulk of the supply in the Québec area, at 66 per cent of all standard spaces, with the rest consisting of spaces in rooms. Of the two categories, apartments have the lowest vacancy rate. In fact, in the Québec area, in 2014, the percentages of vacant standard spaces reached 4.8 per cent for apartments and 8.0 per cent for rooms. In fact, it is in the apartment retirement home segment that the market recently developed.

In recent years, the Québec area recorded an increase in the supply of retirement homes. From 2005 to 2014, there were close to 5,100 starts of apartments located in retirement homes. This addition occurred in a context of slow growth of the population aged 75 or older. In fact, the birth rate was especially low during the Great Depression of the 1930s, such that the population reaching 75 years and over rose at a moderate pace from 2005 to 2014.

Figure 4

Growth (in numbers) in the Population Aged 75 and Older
Québec CMA



Source: Institut de la statistique du Québec (ISQ), population estimates for 1996 to 2010 and population projections for 2011to2036

[6] CMHC, Seniors' Housing Survey. CMHC conducts the Seniors' Housing Survey each year in February and March. This survey targets private and non-profit residences. To be included in the survey universe, residences must have at least 10 rental units, offer a meal service on site, have at least 50 per cent of its residents aged 65 or older and not mandate high levels of health care (defined as 1.5 hours or more of care per day) to all of its residents; nursing homes and long-term care homes are examples of residences that are not included in the survey.

[7] Spaces where the residents do not receive high-level care (that is, the residents receive less than 1.5 hours of care per day) or are not required to pay an extra amount to receive high-level care.

[8] Needing less than 1.5 hours of care per day.

Spotlight on...(cont'd)

Population growth will pick up

Population projections[9] show that the growth rate for the population aged 75 and older will pick up starting in 2016, through to 2022, and then slow down gradually. While, for the past five years, the average annual growth of this population was 1,600 people, this number will climb to 2,800 people by 2019 and then to 4,000 from 2020 to 2024. The growth of the seniors' population will therefore accelerate.

Market will need to adjust

The housing market will therefore need to adjust to this new reality. The need for seniors' housing will surely increase. It remains to be seen if the characteristics of the seniors' housing supply will correspond to the needs of households who are gradually shifting into other generations and probably having different preferences. Other options that could compete with retirement homes, such as high-end conventional rental apartments, condominiums or even home services should also be considered.

Finally, retirement home clients need more care as time goes by. We can therefore wonder how the range of services provided in retirement homes will evolve and what alternatives could be offered to these clients needing high-level care.

[9] Institut de la statistique du Québec (ISQ), population projections for 2011 to 2036.

Forecast Summary
Québec CMA
Spring 2015

	2012	2013	2014	2015(F)	% chg	2016(F)	% chg
New Home Market							
Starts:							
Single-Detached	1,258	961	887	850	-4.2	800	-5.9
Multiples	5,158	3,719	3,562	3,400	-4.5	2,800	-17.6
Starts - Total	6,416	4,680	4,449	4,250	-4.5	3,600	-15.3
Average Price ($):							
Single-Detached	326,583	354,041	356,521	358,000	0.4	358,000	0.0
Median Price ($):							
Single-Detached	292,174	300,000	300,000	300,000	0.0	300,000	0.0
New Housing Price Index (% chg.)	2.9	1.1	0.2	0.5	-	0.5	-
Resale Market[1]							
Centris® Sales	7,219	6,273	6,472	6,700	3.5	6,950	3.7
Centris® New Listings	12,689	12,696	13,335	14,000	5.0	13,500	-3.6
Centris® Active Listings	4,694	5,619	6,453	6,600	2.3	6,500	-1.5
Centris® Average Price ($)	257,879	267,294	264,564	265,800	0.5	269,700	1.5
Rental Market[2]							
October Vacancy Rate (%)	2.0	2.3	3.1	3.5	0.4	3.8	0.3
Two-bedroom Average Rent (October) ($)	741	757	775	790	1.9	805	1.9
Economic Overview							
Mortgage Rate (1 year) (%)	3.17	3.08	3.14	2.30 to 3.50	-	2.40 to 4.00	-
Mortgage Rate (5 year) (%)	5.27	5.24	4.88	4.00 to 5.50	-	4.20 to 6.20	-
Annual Employment Level	429,100	428,500	433,700	438,000	1.0	444,600	1.5
Employment Growth (%)	0.9	-0.1	1.2	1.0	-	1.5	-
Unemployment rate (%)	5.0	4.7	5.3	5.5	-	5.5	-
Net Migration	5,302	5,385	4,843	4,900	1.2	5,000	2.0

[1]The Centris® system contains all the listings of Québec real estate brokers.

[2]Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), Statistics Canada (CANSIM), Centris® Statistics. CMHC Forecast (2015-2016)

NOTE: Rental universe = Privately initiated rental apartment structures of three units and over

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly **Starts and Completions Survey**. Building permits are used to determine construction sites and visits confirm construction stages. A **start** is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's **Market Absorption Survey**, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "**absorbed**" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which. have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate. Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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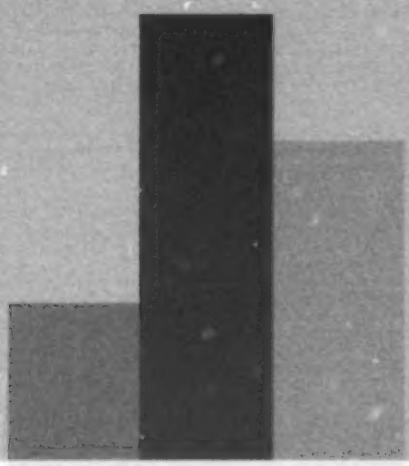

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